

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON KHÂI-MA LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of Khâi-MA Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the statement of comparison of budget and actual amounts and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of Khâi-MA Local Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairments

7. As disclosed in note 15 to the financial statement, the municipality had receivables for exchange transaction of R16,8 million at 30 June 2013. Provision for impairment is stated at R13,8 million (81%) included in receivables from exchange transactions.

Unauthorised expenditure

8. Unauthorised expenditure incurred during 2012-13 was disclosed for the current year as R5,5 million (2012: R5,6 million) in note 38.1 to the financial statements. This unauthorised expenditure was still awaiting authorisation or to be written off.

Irregular expenditure

9. Irregular expenditure incurred during 2012-13 of R1.6 million (2012: R3,5 million) has been disclosed in note 38.3 to the financial statements. The full extent of the irregularities, as disclosed, was still in the process of being determined.

Additional matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

10. I have not obtained the other information included in the annual report. Consequently I have not been able to identify whether the other information to be included in the annual report contains any material inconsistencies to the information in the financial statements.

Unaudited supplementary schedules

11. The supplementary information set out on appendices A to E does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

12. The annual performance report was not presented for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
13. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information*.
14. The material findings are as follows:

Usefulness of information

15. The National Treasury *Framework for managing programme performance information* requires that performance targets be specific in clearly identifying the nature and required level of performance. None of the targets relevant to all programmes were

specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the National Treasury *Framework for managing programme performance information* but chose not to apply the principles contained in the National Treasury *Framework for managing programme performance information* due to staff constraints.

16. The National Treasury *Framework for managing programme performance information* requires that performance targets be measurable. The required performance could not be measured for any of the targets relevant to all programmes. This was due to the fact that management was aware of the requirements of the National Treasury *Framework for managing programme performance information* but chose not to apply the principles contained in the National Treasury *Framework for managing programme performance information* due to staff constraints.
17. The National Treasury *Framework for managing programme performance information* requires that the time period or deadline for delivery be specified. None of the targets relevant to all programmes were time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the National Treasury *Framework for managing programme performance information* but chose not to apply the principles contained in the National Treasury *Framework for managing programme performance information* due to staff constraints.
18. The National Treasury *Framework for managing programme performance information* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. None of the indicators relevant to all programmes were well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the National Treasury *Framework for managing programme performance information* but chose not to apply the principles contained in the National Treasury *Framework for managing programme performance information* due to staff constraints.
19. The National Treasury *Framework for managing programme performance information* requires that it must be possible to validate the processes and systems that produce the indicator. None of the indicators relevant to all programmes were verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.
20. Planned objectives and indicators included in the integrated development plan are not consistent with the SDBIP. In total 100% of all planned objectives and indicators and targets specified in the SDBIP for the year under review were not consistent with and/or included in the integrated development plan submitted for audit purposes. This was due to a lack of implementation of a performance monitoring system to ensure consistency between the integrated development plan and the SDBIP.

Compliance with laws and regulations

21. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Strategic planning and performance management

22. The municipality did not give effect to its integrated development plan (IDP) and conduct its affairs in a manner which was consistent with this plan, as required by section 36 of the Municipal Systems Act and municipal planning and performance management, regulation 6.
23. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
24. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the Municipal Finance Management Act .
25. The municipality did not maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the Municipal Finance Management Act.
26. The municipal council did not review its integrated development plan in accordance with an assessment of its performance measurements in terms of section 41 to the extent that changing circumstances demanded, as required by section 34 of the Municipal Systems Act and Municipal planning and performance management regulation 3.
27. The municipality did not set key performance indicators, including input indicators, output indicators and outcome indicators, in respect of each of the development priorities and objectives set out in the IDP, as required by section 41(1)(a) of the Municipal Systems Act and the Municipal planning and performance management regulation 1 and 9(1)(a).
28. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the Municipal Systems Act and the Municipal planning and performance management regulation 12(1) and 12(2)(e).

Budgets

29. Quarterly reports were not submitted to the council on the implementation of the budget and the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the Municipal Finance Management Act.

Financial statements, performance and annual report

30. The 2011-12 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the Municipal Finance Management Act.
31. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2011-12 annual report in the council, as required by section 127(3) and 133(1)(a) of the Municipal Finance Management Act.

Audit committees

32. The council did not establish an audit committee, as required by section 166(1) of the Municipal Finance Management Act.

33. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a).

Internal audit

34. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that:
- it did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - it did not report to the audit committee on the implementation of the internal audit plan.
 - it did not advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
35. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.
36. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal planning and performance management regulation 14(1)(a).
37. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
38. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
39. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports on their audits to the municipal manager and a performance audit committee, as required by Municipal planning and performance management regulation 14(1)(c).

Procurement and contract management

40. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management regulation 17(a) & (c).
41. Construction projects were not always registered with the Construction Industry Development Board, as required by section 22 of the Construction Industry Development Board Act and Construction Industry Development Board regulation 18.
42. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by municipal supply chain management, regulation 13(c).

Human resource management and compensation

43. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of Municipal Systems Act sec 67(d).
44. The municipal manager and senior managers directly accountable to the municipal manager did not have performance agreements, as required by section 57(2)(a) of the Municipal Systems Act.

Expenditure management

45. The accounting officer did not take reasonable steps to prevent unauthorised, irregular, and fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

Conditional grants received

46. The municipality did not submit quarterly performance reports to the transferring national officer, the Northern Cape provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the Division of Revenue Act.
47. The municipality neither evaluated its performance in respect of programmes funded by the Municipal Infrastructure Grant, Integrated National Electrification Programme (Municipal) Grant, Local Government Financial Management Grant and the Municipal Systems Improvement Grant nor submitted the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.

Consequences management

48. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.
49. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.
50. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.

Internal control

51. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

52. The Mayor did not develop and submit for adoption by the council, a performance management system to report on service delivery. Leadership did not hold staff of the municipality accountable due to the performance system not being implemented.

53. The position of accounting officer was held by a number of individuals, most of who served in an acting capacity, resulting in a lack of continuity in leadership.
54. During the financial year under review, leadership did not take timeous and adequate action to address weaknesses in the finance and SCM directorates which resulted in non-compliance with applicable legislation and gave rise to unauthorised, irregular or fruitless and wasteful expenditure.
55. The leadership did not ensure adherence to SCM policy at the municipality, which resulted in processes not preventing irregular expenditure and material non-compliance.

Financial and performance management

56. During the financial year under review, management also did not ensure that all transactions and records were internally checked to detect possible fraudulent activities and to correct errors in the financial records.
57. During the year under review, the accounting officer did not regularly review and monitor management's compliance with all laws and regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented.
58. The municipality did not have a delegated employee to review and monitor compliance with applicable laws and regulations. There are deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations and performance information.
59. Management did follow up on the prior audit findings which resulted in the municipality not to submit an annual performance report for the current and prior financial year.

Governance

60. Management did not review or monitor risks identified. In addition no risk assessment was performed relating to the IT environment.
61. The internal audit unit did not function for the entire financial year. Accounting officer did not ensure that there is a fully functioning internal audit unit.
62. Prior years audit finding was not address by management as the council did not establish an audit committee as required by the Municipal Finance Management Act.

Auditor General
Kimberley

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence